

Econ: 102

12 March, 2008

Student Name _____

Section # _____

TA name _____

Student ID # _____

**SECOND MIDTERM EXAMINATION
VERSION 1**

**DO NOT OPEN THE TEST UNTIL THE INSTRUCTOR TELLS YOU TO DO SO. READ
THESE INSTRUCTIONS FIRST.**

You have **50 minutes** to complete the exam (about 2 min. per question). There is **one and only one best answer** to each question. All questions are worth the same number of points.

You will have **5 points taken off for not providing/coding your name, student ID number, discussion section you've been attending or test version number correctly on your scantron.**

HOW TO FILL IN THE SCANTRON SHEET CORRECTLY:

1. Answer all questions on the scantron sheet with a #2 pencil.
2. Print your last name, first name, middle initial and student ID number in the spaces marked "Last Name," "First Name" and "MI". Fill in the corresponding bubbles.
3. Write the number of the discussion section you've been attending under "Special Codes" spaces ABC, and fill in the bubbles. You can find the discussion numbers below on this page.
4. Write the version number of your exam booklet under "Special Codes" space D, and fill in the bubble. The version number is on the top of this page.

OTHER IMPORTANT REGULATIONS:

1. If there is an **error on the exam or you do not understand something**, make a note on your exam booklet and the issue will be addressed AFTER the exam is complete. No questions regarding the exam can be addressed while the exam is being administered.
2. **When you are finished**, please get up quietly and bring your scantron sheet and this exam booklet to the place indicated by the instructor/TAs.
3. **No cell phones**
4. **Only simple calculators** allowed

DISCUSSION SECTION NUMBERS:

350 3:30 Wed Chao He	354 8:50 Fri Jacob Miller	358 12:05 Fri Jacob Miller
351 3:30 Wed Jacob Miller	355 8:50 Fri Chao He	359 12:05 Fri Chao He
352 8:50 Thur Jiao Shi	356 9:55 Fri Chao He	360 1:20 Fri Chao He
353 8:50 Thur Jacob Miller	357 9:55 Thur Jacob Miller	361 2:25 Thur Jiao Shi

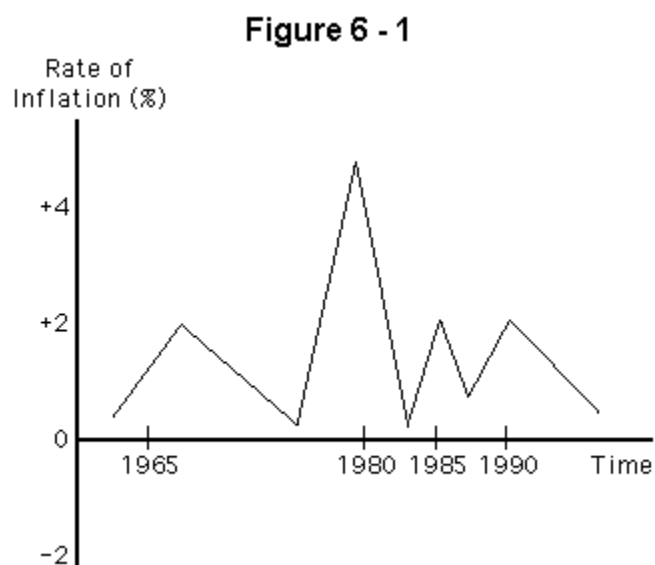
1. If the CPI for 2003 was 212, the typical market basket purchased that year would cost
 - a. 212 percent *more* than the same market basket purchased the previous year
 - b. 112 percent *more* than the same market basket purchased the previous year
 - c. 212 percent *more* than the same market basket purchased in the base year
 - d. 112 percent *more* than the same market basket purchased in the base year
 - e. more than the same market basket purchased during any previous year

2. Angela has \$800 at hand and is deciding whether to save it in a bank or to buy a bond that costs \$800 now and will pay \$1000 after a year. Which of the following is true?
 - a. She will buy the bond if bank interest is 50%
 - b. She will not buy the bond if bank interest is 20%
 - c. She will not buy the bond unless the bank interest is greater than or equal to 25%
 - d. She will not buy the bond unless the bank interest is less than or equal to 25%
 - e. None of the above is true

IN THIS QUESTION THERE WAS A LANGUAGE PROBLEM ...NOT/UNLESS... MANY PEOPLE GOT CONFUSED, NEED TO FIX IT

3. From the year 2004 to 2005, the GDP deflator has increased from 110 to 120. We know that the growth rate of real GDP from 2004 to 2005 is 10%. Further, the nominal GDP in 2004 is \$10,000. What is the nominal GDP in the year 2005?
 - a. 9,091
 - b. 10,000
 - c. 12,000
 - d. 14,000
 - e. can't be determined from the information given

4. Which of the following goods and services would certainly be excluded from the CPI?
- a. legal services
 - b. used cars
 - c. French wines sold in the U.S.
 - d. restaurant meals
 - e. shares of stock in U.S. corporations



5. Refer to **Figure 6-1**. Based on the figure,
- a. the price level has fallen since 1990
 - b. the price level in 1985 was lower than in 1980
 - c. the price level fell from 1980 to 1990
 - d. there was no deflation since 1965

- e. the base year is 1965
6. At the beginning of the year 2008, the Baking Inc. issued a bond that pays \$1000 at the end of the year 2008, 2009, and 2010. Suppose the market interest rate is 10%. How much does the bond worth at the time of the issuance?
- a. \$3,000
 - b. \$2,727
 - c. \$2,487
 - d. \$2,253
 - e. can't be determined unless we know the inflation rates
7. Suppose that Colleen's nominal wage rate was \$20 per hour in 1998, the base year for the CPI. If the CPI in 2003 was 120.0 and her nominal wage had risen to \$25 per hour, what was her real wage in 2003?
- a. \$16.67
 - b. \$18.33
 - c. \$20.83
 - d. \$25.00
 - e. her real wage for 2003 cannot be determined with the information given

8. Assume that the professors at a local college have gone without a pay increase for 4 years during a tough time. Suppose that things start to look up and the President of the college wants to make up for lost time. If the CPI in 2002 was 140 and 165 in 2006, how much will salaries have to increase to bring the faculty back up to their real income from 2002?
- a. 165%
 - b. 140%
 - c. 65%
 - d. 25%
 - e. 18%
9. If a lender charges a 9 percent nominal interest rate and at the time of the transaction, the expected inflation rate is 4 percent, what is the realized real rate of return for the lender when the actual inflation ends up being 2 percent?
- a. 2 percent
 - b. 5 percent
 - c. -4 percent
 - d. 7 percent
 - e. 4 percent
10. When the inflation rate ends up being lower than expected,
- a. everyone benefits because money is cheaper
 - b. everyone benefits because prices do not increase
 - c. lenders of fixed-rate mortgages generally benefit because they will make higher profits than they had calculated
 - d. borrowers with fixed-rate loans will benefit because their purchasing power will not decline as much
 - e. no one benefits because everyone made financial calculations based on the projected interest rate

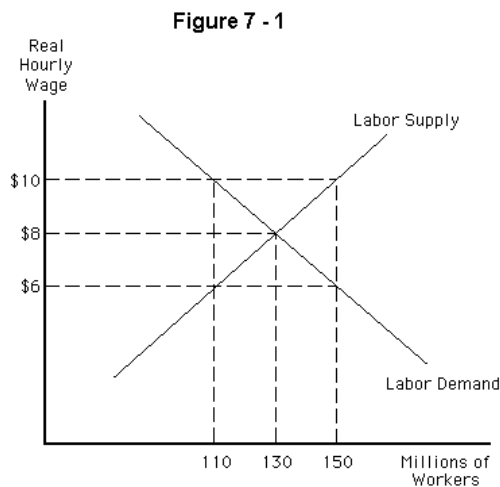
Use the following information to answer the next *three* questions

The Wonderland country produces three goods. The table below contains data of the quantities of goods produced and prices of goods over time.

	T-shirt		Milk (Gallons)		Bomb	
	Price	Quantity	Price	Quantity	Price	Quantity
2005	\$10	10	\$4	30	\$100	2
2006	\$14	15	\$4	40	\$200	2
2007	\$16	20	\$6	50	\$300	3

11. The typical household in Wonderland consumes 5 T-shirts and 10 gallons of milk each year. Let 2006 be the base year. What is the CPI in 2005?
- a. 81.8
 - b. 90
 - c. 100
 - d. 110
 - e. 127.3

12. What is the inflation rate in 2007 as measured by the CPI
- a. - 10%
 - b. 10%
 - c. 27%
 - d. 30%
 - e. 37%
13. Using the year 2005 as the base year, what is the GDP deflator in 2007?
- a. 41
 - b. 100
 - c. 117
 - d. 141
 - e. 217
14. In the Classical Model,
- a. we focus on labor resources, and completely ignore capital and land
 - b. we study thousands of different resource markets
 - c. we concentrate our attention on two resource markets: labor and capital
 - d. we focus on two markets: goods market and firms
 - e. the number of variables we include depends upon whether we are focusing on the short run or the long run



15. Refer to **Figure 7-1**. What would be the effect if the real wage was \$2 above the equilibrium wage?

- a. There would be a shortage of 40 million workers and the wage rate would rise.
- b. There would be a shortage of 20 million workers and the wage rate would rise.
- c. There would be a surplus of 40 million workers and the wage rate would fall.
- d. There would be a surplus of 20 million workers and the wage rate would fall.
- e. The government would set a minimum wage.

Table 1. Given the following data:

Consumption Spending	\$5.5 trillion
Net Taxes	\$1.5 trillion
Planned Investment Spending	\$2.0 trillion
Government Purchases	\$2.0 trillion

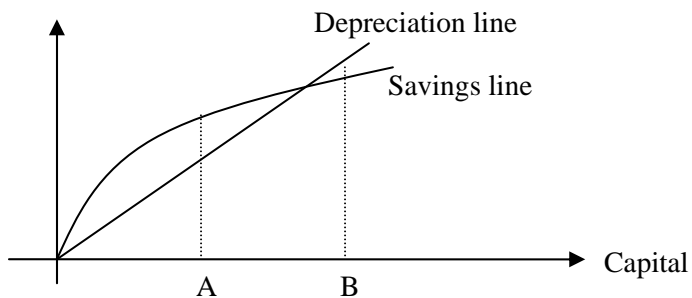
16. **Refers to Table 1.** In the equilibrium of the Classical Model (with government), output would be

- a. \$5.5 trillion
- b. \$7.5 trillion
- c. \$9.5 trillion
- d. \$13.5 trillion
- e. \$15.7 trillion

17. **Refers to Table 1.** Savings in the static equilibrium of the Classical model are

- a. \$4.0 trillion
- b. \$2.5 trillion
- c. \$3.5 trillion
- d. \$7.5 trillion
- e. \$0.5 trillion

Figure 1.1



18. Refer to **Figure 1-1**. Suppose Figure 1-1 applies to both country A and country B. However, country A is currently at point A, and country B is currently at point B. Then, in the Classical model we discussed in class, the following is true:

- a. Both in country A and B capital will grow over time
- b. In country A capital will grow over time; in country B capital will fall over time
- c. Both in country A and B capital will fall over time
- d. Both countries are in their long-run equilibrium, and will stay there
- e. Only country B is the long-run equilibrium; in country A capital will grow over time

19. Suppose that in the Classical Model (without government) the loanable funds market is in a situation of temporary imbalance: the supply of funds exceeds the demand for funds at the current level of the interest rate. Then, we should also expect:
- a. Aggregate expenditures on goods and services will exceed total output
 - b. Aggregate expenditures on goods and services will be lower than total output
 - c. Aggregate expenditures on goods and services will still be equal to output
 - d. Labor demand will exceed labor supplied
 - e. Capital must fall over time
20. What most accurately describes the likely effect of the technological progress in the Classical model?
- a. Ambiguous on the equilibrium interest rate, but will lead to increased employment
 - b. Ambiguous on the employment level, but will increase the equilibrium interest rate
 - c. Will lead to lower equilibrium interest rate and lower employment
 - d. Will lead to higher equilibrium interest rate and higher employment
 - e. Capital will fall over time
21. The following statement is true about the Classical Model
- a. There is no unemployment in equilibrium
 - b. There is unemployment, but there is no cyclical and seasonal unemployment
 - c. There is only cyclical unemployment
 - d. There is only structural unemployment, but no cyclical and frictional unemployment
 - e. The Classical Model does not have any implications for the functioning of the labor market

Use the Classical Model and the following information to answer the next *three* questions.

The national saving rate is 10%, and the depreciation rate of capital is 10%. Suppose that the equilibrium employment is $L=10$ and the production function is $Y = \sqrt{KL}$.

22. Assume the economy initially has 10 units of capital. Then, the next period level of capital is:
- a. 11.2
 - b. 9.6
 - c. 10
 - d. 10.9
 - e. 9
23. Assume the economy initially has 5 units of capital. Then, in the long-run, the level of capital in this economy is
- a. 3
 - b. 4.8
 - c. 5
 - d. 6.2
 - e. 10
24. Assume the economy initially has 15 units of capital. Then, in the long-run, the level of capital in this economy is
- a. 3
 - b. 4.8
 - c. 5
 - d. 6.2
 - e. 10

25. If expected inflation rate is 6% and the nominal interest rate is 2%, then
- a. the ex-ante real interest is 4%
 - b. the ex-post real interest is - 4%
 - c. the ex-ante real interest is - 4%
 - d. both the ex-ante and the ex-post real interest rates are - 4%
 - e. none of the above is true
26. Mary bought a bond at the beginning of the year 2008. The bond will pay \$1000 at the end of the year 2010. (Hint: there are three years between these two times.) The bond cost Mary \$751. After one year, at the beginning of the year 2009, interest rate is expected to be 20% for the next two years. Mary should
- a. sell the bond only if the price is greater than \$751
 - b. sell the bond if the price is greater than \$695
 - c. not sell the bond if the price is less than \$800
 - d. not sell the bond if the price is less than \$751
 - e. can't be determined unless we know the inflation rates